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The Economic Development Role of the Urban Informal Sector in Developing Countries: An Inflow Outflow Analysis

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ABSTRACT

In addition to having argued well the rationale of informal sector economics in developing countries, this paper claims to have developed one of the very few comprehensive models on the sector. A classical input output approach to urban economic development suggested two reasons why an urban community is poor: (1) inadequate inflow of money into the urban community and (2) too much outflow of money from the urban community. Based upon this approach, suggestions are made as to how the resources of the informal sector in developing countries can be mobilized to increase the inflow of money into an urban community, while simultaneously reducing the outflow of money from it. The arguments and suggestions are illustrated by examples from Nigeria.

1. INTRODUCTION

As an obvious manifestation of all developing economies, the informal sector has been over researched and too frequently advanced as a source of the solution to the urban problems of employment and poverty in developing countries. Yet there are remarkably few models of the sector based on a conceptual framework that encompasses the whole economy, which can be used by development planners who must operationalize efforts in this area. As a result, past policy recommendations to promote development of the sector have tended to be ad hoc, piecemeal and unsystematic.

The purpose of this paper is to provide a more comprehensive and systematic way of viewing the urban informal sector using a local economic development model as a framework. A traditional systems approach to urban economic development suggests two fundamental reasons why an urban community is poor. The first is that not enough money flows into the urban community, viz. exports, investments and government expenditures. The second is that too much money leaks out of the urban community, viz. imports, savings, taxes and wastes. (See figure 1.)

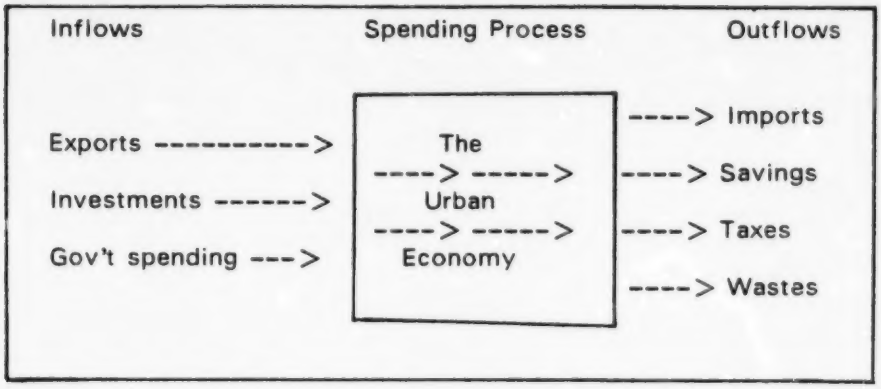
This paper examines the role of the urban informal sector in such an economic model within the context of developing economies. More specifically, the question is asked -- how can the resources of the informal sector in developing countries be mobilized on behalf of the urban communities to:

1) stimulate or increase exports, investments and government spending; and

2) plug leakages caused by imports, savings, taxes and wastes.

There are two distinct parts to the paper. Part one presents the rationale of informal sector economics in developing countries. Part two considers how the informal sector can make a difference in an urban economy, given a well defined framework of analysis.

Figure 1


Inflows
Spending Process
Outflows
Exports ---------->
Investments ------>
Gov't spending --->
The
Urban
Economy
----> Imports
----> Savings
----> Taxes
----> Wastes

2. RATIONALE OF INFORMAL SECTOR ECONOMICS

2.1 Informal Sector Defined

However defined, the informal sector is an economic phenomenon characteristic of all nations, whether of the First, Second or Third World. However disaggregated, participation in this sector is highest among developing countries, involving mainly but not exclusively the urban poor, composed of rural urban migrants and marginalized/unskilled urban labor. Used here, the informal sector refers to an ideal-type free market economy in which there is no government involvement nor economies of scale, and in which all participants (excluding those in the illegal underground economy) are price takers.

The concept generally covers a wide range of income-generating activities conducted outside the formal tax system of the society. Among the sector's other distinquishing characteristics are: easy entry and exit, vulnerability to harassment from government officials, relatively scarce capital, frequent reuse of goods, low overhead, limited publicity, non-fixed prices, mainly family organized, and generally less than 10 employees per enterprise.

According to statistics cited in Sethuraman (1981, p. 214), the estimated share of the urban labor force in the informal sector ranges from 17-70 per cent for some leading cities in developing countries. But despite the proliferation of such statistics attesting to the preponderance or significance of informal activities in developing economies, the sector is yet to receive adequate recognition in the national development plans of these countries; a fact which is perhaps more puzzling than unfortunate. Despite the primary national goal in all developing countries to eradicate poverty by making labor a scarce commodity, much of their current planning remains directed almost exclusively at the formal or organized sector, which frequently does not represent their predominant mode of economic transaction.

Why do the developing countries, on the one hand, profess to be primarily interested in combating poverty, but, on the other hand, choose to ignore the informal sector which accounts for a vast number of the poor? An attempt to understand this contradiction is begun here by discussing the works of Perroux, Myrdal and Hirschman that form the basis of the unbalanced top-down development strategy in vogue in these countries. The intention is to highlight the implications of this strategy for the urban informal sector.

2.2 Development Theory and the Informal Sector

"The fact rough but solid is this: growth does not appear everywhere at the same time; it manifests itself in points or 'poles' of growth, with variable intensities; it spreads by different channels with variable terminal effects for the economy as a whole" [Perroux 1955, p. 185]. This excerpt is today what makes Perroux's work part of the genesis of most contemporary development paradigms. Based on it, both Myrdal (1957) and Hirschman (1958) envision an early stage in development in which government concentrates all of society's development efforts and resources in a few areas of the economy that have potential for further economic expansion. The resulting "growth center" model, owing to its call for central government involvement and support, prima facie excludes the informal sector from any considerations as a potential area for concentration. (Recall that the aforementioned is distinguished primarily by 'no government involvement.') It is additionally argued that investments in the sector would not lead to the desired rapid generation of national income, and that an inadequate information base on the sector would make it difficult to understand the multipliers of investments in the area.

Accepting industry and technology as the basis for development efforts, the growth center strategy suggests that, by focusing national resources on these two elements (viz. potential areas of the formal economy), development will occur with "growth being communicated from leading sectors of the economy to followers, from

one industry to another, from one firm to another, (and, by implication, from the formal to the informal sector)" [Hirschman 1958, p. 63]. This mechanism by which economic growth is diffused is termed "spread" effects by Myrdal and "trickle down" by Hirschman.

Ignoring the (short term?) stronger adverse effects of "backwash" and "polarization," both Myrdal and Hirschman maintain that unbalanced growth is a desirable as well as a necessary strategy for the developing countries, given their resource constraints. They argue that pursuing the alternative strategy of "balanced growth," in which resources are shared amongst all the sectors (formal, informal or otherwise), will cause these poor countries to spread their meager resources too thin and, consequently, lead their development initiatives in any sector not have a reason able chance of success. But, however, by choosing to concentrate resources in a few potential areas of the formal economy, it is believed that the chances of success are increased immensely, with an eventual success further leading to a "demonstration effect" in which success breeds success.

Thus, it is that the theory of economic development originating from the works of Perroux, Myrdal and Hirschman requires that equitable distribution of society's resources be sacrificed, so that efforts can be successfully concentrated in strategic areas of the formal sector. The assumption being that the latter has more potential to affect the former than vice-versa. In the parlance of this theory, income distribution will have to get worse before it gets better, which obviously raises a core question regarding the urban poor who are situated mainly in the informal sector. What are they to do in the mean time, that is, until the "meta-physical" terms of trickle-down, spread effects or hidden dynamics of the market place begin to equalize the short run denuding effects of polarization?

Beyond this fundamental question, it is problematic to imagine how well an essentially western economic strategy can be exported to the developing continents (i.e., Africa, Asia and Latin America), where ethnic demands for an equitable share

of development resources (balanced growth) is high; where the formal economy often accounts for a small proportion of the labor force; where the centers of accumulation are poorly interlinked with the peripheries; and where the countries themselves are yet to develop into "economic containers" capable of plugging leakages or financial hemorrhaging to the outside world. These latter two factors are, of course, particularly crucial in bringing about conditions under which the trickle down process of development benefits can occur.

To further help put the rationale of the informal sector into perspective, the next section reviews intellectual opinions on the sector with the additional aim of extracting diverse views on how best to promote development in the area.

2.3 Literature Review

The ILO book edited by Sethuraman (1981) can be best summarized as the "trinity in one" of the urban place problems. The "one" refers to the urban informal sector, while the "trinity" consists of urban employment, poverty and the environmental quality. With case studies from the developing continents, the study sought to establish empirically the relationships between the "one" and the "trinity," and the possible role of the former in upgrading the latter. The informal sector is viewed as possessing the capability to improve the "trinity" because of the sector's labor absorption capacity, generation of human capital and income, provision of goods, import substitution function and recycling of waste.

Apart from a general policy of full recognition to improve attitude towards the informal sector, the study suggests specific policy improvements including a re-orientation or change in lending procedures and credit availability; technological transfer by "providing the necessary skills, tools and know-how" [p. 204]; "eliminating restrictions preventing fuller participation by the informal sector" [p. 202]; and zoning measures "whereby clusters of homogeneous informal sector activities can be created in given locations within the city" [p. 176].

Das (1986) attempts a reclassification of the dualistic model of the urban economy. Redefining the informal sector as a "petty capitalist sector," comprising a wide range of activities involving different groups, Das suggests that development of the sector might be better served by planning for these groups separately. Otherwise, the sector should be left alone to flourish except for the group she identifies as being poverty-bound. In the case of this group, the state is to intervene with a view to increasing its self reliance.

Weeks (1975) notes three major advantages of the informal sector: (1) significant production of quality goods for domestic consumption; (2) provision of indigenous capital goods industry and enhancement of local human capital; and (3) promotion of labor intensive technologies for industrialization. To the extent that government purchases are huge in all developing countries and often depend on costlier imported materials, Weeks points out that a redirection of those government purchases toward the informal sector would result in a less capital/import intensive public demand. Alternatively, insofar as "increased wage rates in the formal sector tend to stimulate informal sector production," Weeks further suggests a "substitution of informal for formal sector production through subcontracting by large firms" [p. 110].

Linn (1983, p. 41) argues that the informal sector enterprises, no matter how defined, "ought to be recognized as valuable, be interfered with as little as possible and supported where resources permit, so that they may operate on an equal footing with their formal sector competitors." Linn, inter alia, suggests an elimination of regressive taxes rooted in licensing and user-recovery schemes as one of the more effective means to advance progress in the sector.

Emmerij (1974) sees consensus on three aspects of the informal sector: (1) that "it makes good economic sense to promote the informal sector rather than discriminate against it, as is the present case" [p. 200]; (2) that the informal sector is a permanent feature of developing economies; and (3) that some activities in the

informal sector have no future in the sense that nothing can be done to raise the income earned from these activities [p. 204].

Freedman (1981) finds it unfortunate that workers in the informal sector continue to suffer discrimination and harassment by government officials, despite the sector's vital role in not only "absorbing the residue of entrants to the urban labor force," but also in "providing essential goods and services which sometimes are not available elsewhere" [p. 755]. Freedman suggests three policies for strengthening the sector: (1) enhancing the sector's linkages with agriculture, the formal sector and foreign trade; (2) equal treatment with the formal sector for those informal sector enterprises that have demonstrated their viability; and (3) government purchases of informal sector goods through subcontracting and-or direct purchases.

Armstrong and McGee (1985) examine a group of petty commodity distributors who have remained remarkably persistent in the face of dramatic economic growth of the capitalist sector. This different approach to the study of the informal sector looks at the phenomenon by type. Describing the hawker as having "capitalist motives without all the resources of the capitalist" [p. 172], Armstrong and McGee see him as existing at the pleasure of the capitalist class for whom the hawking activity has value. The value for this class include identifying demand patterns within the economy and providing a dumping ground for the formal economy surplus inventories and inferior goods. Despite their observation that the hawking activity does not impede modernization, but, in fact, complements it by preventing structural unemployment, the authors acknowledge that government policy in Hong Kong "towards hawkers now seems more designed to attack the structural aspects of their operation .... (because by 1990) they will have served their purpose for the capitalist mode of production and can be largely discarded" [p. 201].

Knowing that academic perspectives on the informal sector can be endless, it suffices to say that the above-mentioned tenets dominate the literature. These perspectives are articulated in the next section in the light of the argument that

the informal sector is a direct means for redressing poverty in the developing countries. For the sake of specificity, the remainder of the paper makes use of evidence of the informal sector from Nigeria, where urban labor participation in the sector is more than 50 per cent [Sethuraman 1981, p. 214].

2.4 Evaluation of the Literature

Excepting the Armstrong and McGee's (1985) work on the Hong Kong hawkers, all the literature reviewed conclude that it makes good economic sense to promote activities in the informal sector. But even this aforementioned exception alludes to the misguidedness of any policy that dives into promoting the informal sector without first substantiating the links between it and the formal sector, and the polarization effects that result from the relationship. However, "the extent to which surplus generated by the informal economy is thus appropriated by the formal sector is a matter for empirical verification, depending on the nature and extent of backward and forward linkages between the two" (Sethuraman 1981, p. 34).

In any event the consensus in favor of promoting the informal sector derives chiefly from one reason -- "the now widely recognized fact that it takes a very long time (if not forever) for the benefits of general development policies to trickle down to the poorest sections of the population" [Sethuraman 1976, p. 69]. Two more reasons should, however, be added: (1) the formal sector's inability to absorb the burgeoning urban labor force and (2) the fact that the informal sector is the senior partner in the developing countries, in terms of labor participation and maintenance of the countries' larger population.

To accentuate this latter point, in Ghana, 60–70 per cent of the labor force is found in the informal economy (Hart 1973). Wage employment in Nigeria accounts for only 8 per cent of the labor [Freedman 1981, p. 752]. The city of Lagos, which accounts for more than 40 per cent of Nigeria's total industrial employment (Morah 1986, p. 40), has 50 per cent of its labor force in the informal sector (Sethuraman

1981, p. 214). This figure can only be higher for those other Nigerian urban centers that have neither the industrial nor administrative base of Lagos.

It would then follow that, in the case of Nigeria, for instance, rather than plan for only 8 per cent of the labor force and ignore the remaining 92 per cent, it becomes not only sound economics but also a matter of simple logic that a plan should be pursued which takes into account the activities of the whole. Arguments for equity, in this case, need not be grounded on moral, social or political justifications. A two-tier national development strategy recognizing fully the integral function of the informal sector in developing economies is inescapable for the difficult days ahead. With relentless trends toward urbanization, the integration of planning for formal and informal sectors is perhaps the only way the developing countries can coterminously respond to the problems of urban labor absorption, inequitable distribution of income, dependence on imports, comparative advantage in the international arena, and capital formation both human and financial.

Furthermore, until the developing countries advance to that stage, both economically and politically, where they can minimize or plug leakages in their economies arising from mismanagement, misappropriation and a neo-colonialism syndrome, it is sound advise for their governments to combine a "top-down" approach to development planning with the "bottom-up" approach. While this suggestion does not seek to underplay the strategic importance of the (minority) formal sector in the development process, it nevertheless illuminates the fact that conditions in the developing countries militate strongly against the process of trickle-down, and that the basic needs of the poor cannot continue to be procrastinated.

Thus, it is the submission of this evaluation that, by having the governments of the developing countries recognize fully the economic activities of the greater proportion of their labor force, the economic lot of their poor stands to be immediately and directly impacted. This will largely be the case for two reasons: (1) the structural problems associated with trickle-down will be circumvented and

(2) the risk factors of the informal sector will be dealt with as the "sector will no longer be viewed as an undesirable consequence of the development process, but as an integral and valuable part of the urban economy (and the national economy)" [Sethuraman 1976, p. 81]. The second half of this paper delineates how (formal) planning for the informal sector can be operationalized.

3. THE ROLE OF THE INFORMAL SECTOR

As figure 1 suggests, an urban community is poor for two reasons and two reasons alone: (1) limited inflow of money into the economy; and (2) too much outflow of money from the economy. The purpose here is to outline the role of the informal sector in developing countries in combating these two problems. Each problem is examined separately.

3.1 Flow of New Money into the Urban Community

According to Davis & Davis (1986, p. 3), the flow of money into an economy generally occurs through three channels, namely,

1) exports (external sales of locally produced commodities);

2) investments (the accumulation of local capital, buildings, equipments, and inventories); and

3) senior governments spending (commodity purchases and monetary transfers).

3.1.1 Exports. To the extent that an increase in export production requires indigenous labor inputs the informal sector is afforded a role. The extent of that role depends on the type of labor inputs required (skilled, semi-skilled or unskilled). In particular, however, the more functional role of the sector in increasing exports derives from its "significant production of quality goods which sometimes are not available elsewhere" [Freedman 1981, p. 755].

There are three ways to increase the volume of urban exports using the informal sector. A form of economic trade mission to promote the products originating from the informal sector is one way. And, the scope of this marketing strategy need not be restricted to just the neighboring places. In fact, judging from experience, the informal sector goods from developing countries tend to increase in value with

distance. For example, Safari Dealings Ltd. is a Canada-based company with specialized product lines of animal skin goods, mahogany carvings and safari wear. Two noteworthy aspects of this company are: (1) its handmade goods have their genesis in the informal sector and (2) the company itself started as an idea attained from promotional campaigns overseas. According to the Safari Dealings Ltd. newsletter to potential customers, "the recently (1986) concluded World Exposition in Vancouver revealed the profitable product lines that are scarcely available on the market."

Closely interrelated to the option of economic trade missions is the promotion of tourism both within and outside the country. In addition to taking the products to the potential foreign buyers, these buyers can be enticed to tour the place where the products originate. Because tourists are high consumers of souvenirs and gift goods found mainly in the informal sector, this approach will undoubtedly increase the volume of exports as souvenirs and the like are often among the more effective means for increasing foreign awareness about indigenous products.

Another means to increase urban exports is simply to support those activities of the sector that are concerned with the production of export oriented goods. While this may require financial support, it need not be so. As noted by Das (1986), the more responsible policy in the informal sector is perhaps to "leave it alone" to flourish, without any harassment from public officials or mandatory banishment/ relocation of participants from strategic locations. Other forms of support for the sector may include "access to credit, subsidies, management assistance, marketing advice, training facilities, research, tax and ... the like" [ILO 1981, p. 211].

3.1.2 Investments. Capital expansion, whether by new or existing firms, is another means of increasing the amount of money inflow into the urban economy. Since capital flows to where the return is highest (i.e., where labor is cheap and abundant), the informal sector has a prominent role to play in terms of influencing entrepreneurs' decisions of where to locate.

The "offshore" industries characteristic of the Southeast Asian countries appear to have been stimulated by "urbanization" economies which, inter alia, include the surplus supply of cheap labor in these areas. According to McGee (1986, lecture material), the cheap labor provided by these countries need not initially possess any particular skills. The investing firms, for a nominal cost to themselves, undertake to recruit reasonably intelligent indigenous labor and then teach them the requisite skills (e.g., electronics assembly). Normally this is done in a crash course lasting months even weeks.

What is required to make effective use of the cheap and abundant labor found in the informal sector is to undertake a comprehensive inventory of the human resource potential that abounds in the sector. The product of this in-depth study (or a compilation of existant voluminous literature on the sector) could be used to establish a Research and Information Services Agency, whose chief function would be to provide potential foreign investors with market information regarding the informal sector. The type of data to be provided should include:

1) data on the labor force itself e.g., age groups, sex, level of education, extent of labor force, types of skills available, labor mobility, location of labor in space, entrepreneurial spirit and ability, etc.; and

2) data on the enterprises themselves e.g., productivity, efficiency rating, product diversity, size of firms, income generation, turn-over rate, compensation practices, potential for expansion, linkages to other sectors of the economy especially the formal sector, sources of raw materials, etc..

Beyond providing the above information, any promotional document using the informal sector to attract new businesses should emphasize:

1) investors' desire for quick return on investment;

2) greater diversity in investment opportunities owing to diversity

in product lines; and

3) low start-up and maintenance costs due to low technology demand, cheap labor and perhaps government subsidies.

3.1.3 Government Spending. As the last means of cash inflow into the urban economy, senior governments' transfer payments and purchases can be increased, respectively. Regarding the latter, "whether through direct purchases or subcontracting arrangements, a proportion of government requirements for certain office supplies, furniture, spare parts, uniforms, etc., could be met through the informal sector" [ILO 1981, p. 211]. In Nigeria, the Federal Military Government immediately following the Nigeria-Biafra War (1967-70) undertook to subcontract the supply of military uniforms and boots to proven indigenous tailors and shoe-makers in the informal sector. (Demands for these goods were initially being met from England.) Among other reasons, this policy orientation can be justified on three grounds: indigenous public demands which are (1) less capital intensive (cheaper) and (2) less import intensive (saves precious foreign exchange), and (3) the stimulation of indigenous production (generates employment).

As for senior governments' transfers, an increment can be sought by lobbying these entities for the following purposes:

1) research funds and-or an agency to study the phenomenon of the informal sector;

2) full recognition of the sector, which would bring about supports enjoyed by the formal sector;

3) environmental policy that forces business to compensate for the recovery of certain types of bio-degradables e.g., aluminum cans, bottles, newspaper, etc.;

4) funding for informal education to promote human capital; and

5) increased wage rates in the formal sector since these tend to stimulate informal sector production.

These lobbying efforts may be based on equity, moral and-or political grounds. Though the arguments need not be based on these grounds at all, given the axiom that 'it makes good economic sense to promote activities in the informal sector.' Economic efficiency in resource allocation is sometimes lost when sectorial income inequality becomes too lop-sided. Again, using the case of Nigeria where the notion of a "just and egalitarian society" is strongly espoused, the average household income of people in the informal sector was N727 in 1973 in comparison to N1,260 for their counterparts in the formal sector [ILO 1981, p. 218]. (Note N1 = $1.55 U.S.) Akeredolu-Alu (1975, p. 55) explains the potential economic dysfunctions that could result from this sort of disparity:

> .... excessive income differentials in society could, over a long time, impair overall national economic efficiency and retard growth. It would consequently imply .... lower ability and willingness to work, and the increased marginalization of the masses with respect to the production process. Finally, high income consumption inequality tends to lower the marginal efficiency of capital, especially in mass production (mass market) industries and hence retard investment.

3.2 Outflow of Money from the Urban Community

Obviously, not all the money that enters an urban economy remains in it, which is the second fundamental reason why an urban community is poor. During the spending process, a portion of the money is lost, viz. leakages thereby reducing the multiplier capacity of the economy. Recall from figure 1 that there are basically four sources of leakage from an urban economy:

1) imports (purchases from outside economies);

2) savings (money withdrawn from the economy);

3) taxes (levies imposed by senior governments); and

4) wastes (inadequate uses of goods beyond the first order consumption).

3.2.1 Imports. There is virtually no developing country today that does not confront a chronic import problem. That is why the enormous argument for promoting the informal economy is the sector's import substitution function, which is accentuated by the formal sector's more obvious reliance on imported materials. "More obvious reliance" in the sense that 'wastes,' as an input for some participants in the informal economy, have their genesis in the formal sector and, by implication, in imported materials. [For further exploration of this link, see, Gerry 1978]. With reference to Cali street traders in Columbia, a researcher noted that many of them "are little more than disenfranchised employees of the larger enterprises" [Bromley 1978, p. 1168].

Attempts to use the informal sector to directly reduce import dependence of the formal economy must, therefore, be cognizant of this potential situation in which significant reductions in imported materials will have an adverse 'positive feedback' on the informal sector itself. A more appropriate means to reduce leakages caused by imports would be to promote those goods and services of the informal economy that truly make use of indigenous resources. This is different from directly seeking to reduce imports even though the end product may be the same.

On another note, owing to its connections with formal sector enterprises, local ownership in the informal sector is less than perfect and, thus, stands to be increased with appropriate indigenization policies.

3.2.2 Savings. These are monies hidden away under mattresses, in desks drawers, safety deposit boxes, cookie jars and crevices in the homes. As a peculiar form of liquidity trap (one which does not derive from poor investment environments), this practice is conspicuous in developing countries, especially in Africa where "the great bulk of the African population makes little or no use of formal saving and lending institutions" [Marvin 1980, p. 701]. A story comes to the mind of this author that gives an extreme confirmation of this phenomenon. In Nigeria, an old woman in her late sixties literally ran amok without any clothes when she discovered

that her entire life savings deposited in the shaft of a bamboo stick used as a supporting structure in her shelter had been consumed by termites.

This problem of liquidity trap in the developing countries can be surmised to increase dramatically from the formal to the informal sector. And, it can also be surmised that the reason for its occurrence is most probably connected to the fact that many people in the informal economy do not have an adequate level of formal education necessary to comprehend and appreciate the significance of having their money circulate in the economy. However, a more compelling explanations for the practice is that, because of high legal uncertainties, people in the informal sector find it particularly difficult to re-invest in their businesses, preferring to hold on to their money as cash. Another equally compelling explanation is that, given the sector's operation outside the formal tax system, it is quite possible that depositing money in formal financial institutions will be perceived as "blowing the whistle" on one's own clandestine operations. Also, there is the strong possibility that formal banking practices do not cater to the flexibility needs of the sector e.g., location of banks, hours opened, long waits to make small withdrawals, regressive withdrawal charges owing to a flat fee per withdrawal, etc..

Recognizing that this is where the informal sector has a crucial role to play, that is, in diminishing leakages in an economy due to primitive savings practices, efforts should be concentrated on several fronts. One of these fronts should be the mass education of people in the informal sector on the relevance of pooled resources or central banking of funds. In this awareness drive, emphasis should also be placed on gaining the confidence of these people who probably find it difficult to trust relatives with their hard earned income, much less impersonal institutions whose intimidating complexities they cannot begin to understand.

Efforts also need be focused on fostering different forms of local banking systems that will be more responsive to the informal sector's needs and circumstances. Such systems may be established independent of or in conjunction with the

state. "Informal Savings Mobilization in Africa" by Marvin et. al, (1979, p. 701) has this to say:

> There is ..... mobilization of resources in the informal sector of African economies, focusing mainly on the saving accumulated through clubs or ..... mobile (often ambulatory) bankers operating in African marketplaces. There is mounting evidence that such institutions are found to be far more widely used in Africa than has heretofore been thought and that they commonly serve a broad spectrum of the African population, not just the poorer segment ..... In Ethiopia they have been estimated to handle savings and loans equal to 8% or more of the country's national income.

3.2.3 Taxes. Whether assessed by municipal, state or federal government, taxes are a necessity for any civilized society and "there are obvious limits to community-based efforts to reduce the cash outflow through this channel" (Davis & Davis 1986, p. 8). Nevertheless, it is suggested here that an urban community maintains a concerted lobbying effort in order to ensure that it is assessed the minimal rate of taxation by higher level governments.

Additionally, an urban community may choose to lobby senior governments to expand the community's tax base, through the legalization of some (relatively harmless?) practices of the illegal underground economy such as gambling and prostitution. But as can be expected, depending on the permissiveness of its culture, an urban community may choose not to adopt such measures or to adopt milder forms of them. That is, instead of full scale gambling, a community may only issue licenses for low-key casinos; and instead of rampant prostitution, bawdy houses or 'red light' districts may be instituted.

3.2.4 Wastes. For most urban communities in advanced countries, wastes are a major source of leakage in their economies. Though this is not a leakage in the pecuniary sense of taxes and imports, but surely in the sense of a reduction in the multiplier capacity of the economy. Evidently, not all the money that flows into and remains within the urban economy is utilized efficiently. Some of the money, viz.

potential for recycling is ultimately lost through the inadequate utilization of products beyond their intended primary consumption purpose(s).

That no energy is ever lost but is merely transformed into other forms of energy, is a physics law about conservation which can be said to be more relevant to urban areas in developing countries than ones in the West. Typically in developing countries, first order consumption wastes mainly from industries, government offices and affluent families become fresh inputs for second order consumption and production activities that occur chiefly in the informal sector. Hence, a chain of economic activities with a potential for several iterations is created. Though it is conceivably the case that less and less recuperative utility would result from each additional order of consumption and production.

There is no need to expand this discussion to cover the actual recuperative techniques and efforts, as the literature on "waste recycling in developing countries" is substantial [Vogler 1984; Birkbeck 1978; Subbakrishna & Arie 1986) Suffice to say that the process of waste recuperation involves two types of activities: (1) recycling and (2) reuse or further use.

Because recycling implies a change of state in the conversion process (as in a pyrolytic process), there is bound to be very little enterprise in this option, viz. the informal sector rationale. Not only does the process imply expensive technology, but the recycling technology itself is held to be lagging in general [Nakajima et. al, 1981, p. 145]. Moreover, without an adequate quantity of wastes to be recycled, ventures of this kind can easily become inefficient. But assuming that the state is willing to provide the costly technology required, the informal sector could serve to mobilize the wastes to be recycled.

Reuse or further use is essentially the one informal sector way to diminish leakages in an urban economy caused by wastes. Examples of reuse or further use include the multiple uses of bottles, scrap metal, rubber products, pulp and paper, etc.. Depending on which would be more effective, the state could either establish

itself as the wholesale buyer of the recovered materials or generate policies which make it possible for people in the informal sector to dispose of the recovered materials profitably on the open market. As already noted, the government could intervene with a policy to either force business or provide it with incentives to purchase certain bio-degradables that are recovered. Only when executed in concert with the government or in tandem with its appropriate policies will any suggestions about how to improve the informal sector come to fruition.

4. CONCLUSION

Apart from demonstrating the centrality of the informal sector in developing economies, both as a means of generating and redistributing income, this paper focused on the basic premise that past studies of the sector lacked the comprehensiveness and analytical rigor necessary to avoid ad hoc analyses and concomitant disjointed policy recommendations.

The remedial model presented here obviously oversimplifies the reasons why an urban community is poor. Despite that "community efforts to organize themselves to promote economic production far antecede the social invention of money" (Davis & Davis 1986, p. 8), the model focused exclusively on increasing the inflow and retention of money in an urban economy and, in so doing, precludes other non-pecuniary options to improving the urban economy. Another shortcoming of the model is its static nature, which can be contrasted with the dynamic process of development itself.

But these and other shortcomings notwithstanding, there is clearly some utility, both practical and theoretical, in the articulation of models of this kind which treat the urban economy as a whole. The practical relevance lies in the model's elucidation of the fundamental ways an urban economy gains, retains and looses money, and how these can be manipulated to serve the urban communities by using the resources of the informal sector. The theoretical significance lies in the analysis that is possible under a systematic, comprehensive framework. This second contribution is the greater of the two.

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